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## THE TASK OF FINANCING THE WAR

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At the outbreak of the war there was keen speculation as to its duration. Since the Russo-Japanese War it had been the belief of many eminent military experts that all future wars would be short and decisive. That opinion was predicated upon two important assumptions; one, that modern methods of warfare had been developed along such a plane of destruction that, if hostilities were conducted on an extensive scale, the harvest would be so dreadful as quickly to compel peace; the other, that the financing of military operations upon a gigantic scale was so dependent upon certain definitely fixed money centers, that financiers, rather than military genius, would wield the more potent influence in determining the final results in conflicts between nations.

The difficulties in the Balkan States prior to the present war strengthened those who believed that modern wars must necessarily be short. It is extremely doubtful whether any responsible statesman in any of the countries now engaged in the controversy had the slightest notion in the early days of the war that a war in which were involved practically all of the great civilized powers, or even a relatively small number of the more powerful ones, could endure for any considerable time.

Both of the assumptions have been proved to be unfounded. The wastage in the war, as well as the property loss, and the expenditures necessary to sustain the military operations undertaken have been of such magnitude as to stagger the imagination. The wildest estimates of the most extreme militarists during the period immediately preceding the war have shrunk into insignificance, and no man is sufficiently wise to venture a prediction as to the duration of the hostilities that is of any value in arriving at the correct solutions of many exceedingly important problems pressing for consideration.

Lord Kitchener's announcement shortly after the outbreak of the war that preparations should be made for a three years' conflict

was a rude shock to the civilized world. Received quite generally at first with amused incredulity, it speedily was accepted as an unfortunate reality. The importance of time in the problems to be determined cannot be overestimated. For it is the probable duration of hostilities upon which hinges every question concerning the use of both personnel and material, the conservation of the nations' energies, and the marshaling of the available and of the potential resources of the war afflicted countries.

In at least one very important respect the United States are fortunate. As the war had been waging almost three years before they became embroiled, they have the benefit of the experiences of the other belligerents to profit by, and many grievous and expensive errors that otherwise would probably be unavoidable should not now be made.

If the duration of the war could be definitely fixed or accurately predicted, its financing would be a simple problem in elementary mathematics. If the war were to be sufficiently brief and the expenditures upon any sort of a reasonable scale it would be possible for the United States to imitate the example of Mr. Gladstone in the Crimean War and defray the cost from the current revenues. But there is no such simple problem for the United States. Although war was declared on April 6, 1917, the expenditures up to June 30, 1918, will practically be within a year, which makes the usual, convenient and ordinary basis for comparison.

The appropriations by Congress available till June 30 next aggregate \$18,879,177,014.96. There is included in this sum \$7,000,000,000 to be loaned to the allies of the United States. In addition to the specific appropriations, authority has been given to enter into contract obligations to the extent of \$2,511,553,925.50. Obligations to that extent may be incurred and may mature during this fiscal year, which ends on June 30. If certain manufacturing processes can be carried on more rapidly than contemplated the authorized obligations will be converted into cash payment demands and the expenditures will be measured by the gross total of \$21,399,730,940.46 the sum of the appropriations and contract authorizations.

There have been some intimations that the appropriations were made by the Congress in a blind, uninformed, haphazard manner. I cannot speak for the Senate of the United States, but I am quali-

fied to speak authoritatively for the House of Representatives. Of the \$14,399,730,940.46, which is the total of the appropriations and contract authorizations less the \$7,000,000,000 to be loaned to other belligerents, approximately \$12,000,000,000 were provided in bills prepared under my personal direction, and which were in my charge during their consideration and enactment. With an experience of thirteen years as a member of the Committee on Appropriations, during seven of which I have been its chairman, I am able to state that in my experience no bills were more thoroughly, carefully and intelligently prepared than the bills which made available the vast sums mentioned. More than \$840,000,000 requested by the administration was refused either because the purposes for which the expenditures proposed were not imperatively essential for the conduct of the war, or because it was determined that in many instances progress in preparation could not keep pace with official aspirations, and as the money probably could not be expended in the fiscal year it was not appropriated.

So far the judgment of my colleagues and myself has been justified by events. It is quite possible, however, that men may be mobilized, the equipment manufactured, ships constructed and armies trained and transported and enabled to participate in actual hostilities much more quickly than the Congress believed in providing funds for this year's expenditures. Should that be so, then additional appropriations must be made at the coming session to be available during the current fiscal year.

During the recent session of Congress I had occasion to point out that since the outbreak of the war until August first of this year Great Britain had expended \$21,385,000,000, which sum included \$4,500,000,000 advanced to her allies. Including \$750,000,000 expended by India and the overseas dominions, Great Britain's expenditure during the three years of the war, excluding advances to her allies, aggregate \$18,500,000,000.

During the same period France expended \$15,327,400,000; Russia's burden, which is more of an approximation than any other, was \$15,000,000,000; Italy, during the period of her participation in the war has expended \$3,120,000,000; making a total expenditure by the Entente Allies of \$51,947,400,000.

Germany, including advances to Turkey and Bulgaria, was estimated to have expended \$21,300,000,000, and Austria-Hungary \$12,800,000,000, or a total of \$34,100,000,000.

Including loans the United States in the first year proposes to expend as much as Great Britain, more than France, more than Russia, probably as much as Germany, and one-third more than Austria-Hungary has expended during the entire three years of the war; 23 per cent of the total of all the nations in the war, and 65 per cent as much as Germany and Austria-Hungary during the same period. Even if the amount of the loans to our allies be excluded the figures are still sufficiently startling; and yet as the money to make advances to our allies must be obtained either through loans or taxes the authorized loans cannot be eliminated from consideration.

It must be remembered, too, that these vast expenditures do not make provision for a very extensive military organization contrasted with the numbers that other belligerents have called to the colors. If the United States be compelled to mobilize to the extreme its military resources the figures now under consideration will be dwarfed by comparison with those that will follow.

From a careful study of the purposes for which available funds are to be applied, considering eliminations and probably substitutions, there is no prospect that expenditures will lessen if the war is to continue. They inevitably will increase and be very much greater than during the present year.

The estimated annual revenues of the government from all sources are \$4,033,500,000. The proposed expenditure this year approximates \$20,000,000,000. Upon that basis it is proposed to meet 20 per cent of our expenditures from taxation and 80 per cent from the proceeds of loans. If there be excluded one billion dollars from the estimated expenditures and the same sum from the estimated revenues to represent the normal cost of maintaining the government, it appears that the cost of the war is to be defrayed to the extent of 14 per cent from taxes and 86 per cent from loans.

If all of the other lessons of history are to be ignored the United States at least should not be indifferent to the disastrous consequences that followed the attempt to finance the Civil War by resorting almost exclusively to loans. A grossly inflated national debt, without the proper exercise of the taxing power, inevitably results in an impaired national credit, an increased interest rate and a depreciated currency.

The task that the United States have assumed in this war is so unique, of such magnitude and so fraught with difficulty and peril

as to compel resort to means that seldom would be required. It is proposed to raise and equip armies numbering in the millions, to construct ships for their transportation to engage in battle three thousand miles away, through seas infested with a hitherto unknown peril. It is proposed to produce food and munitions not only for our own enormous population, but largely for Great Britain, France, Russia, Italy and many small states. The task will be no easy one; it will tax to the extreme our power and our resources. In all preparations in every other direction the plans have been made on a comprehensive scale and with a wise vision that events will justify. Our financial plans are not developed to the extent they should be.

It is the boast of financiers, statesmen and economists of Great Britain that the empire's credit is as sound today as at the outbreak of the war. They assert that the liberal manner in which the taxing power has been used to obtain necessary revenues is wholly responsible for that situation. The wealth of the United States is estimated at \$250,000,000,000; Great Britain's at \$80,000,000,000. With expenditures on account of the war approximately the same Great Britain is obtaining from taxation at least 25 per cent more than the United States, although her wealth is approximately but one-third of ours.

I am not of those who believe that a proper fiscal policy would justify attempting to obtain all the revenues required from taxation. It is doubtful whether any group of public men advocate such a policy. The predominant inclination is to rely chiefly upon loans and my belief is that public men in the United States are too strongly inclined to place the burden upon posterity by resorting to loans.

The true and only justifiable policy is to utilize the taxing power to the fullest extent and to resort to loans for the deficit in revenue. There is no possibility that an undue proportion of the burden will be placed upon revenues. Our preparations have been initiated upon the only safe theory—that the United States has become a participant in a war of extraordinary magnitude that will be of unusual duration. Our fiscal policy must fit that theory.

While resort cannot be had to many sources of revenue for sound economic reasons, while some will not be because of political expediency, there still remain many untouched sources, and heavier levies can be made upon present ones without imposing burdens that cannot be justified.

For instance many believe that with the recent revenue law the limit has been reached in the impositions that may be placed on incomes and excess profits. I am not in accord with that opinion. If the war is prolonged over many years, as it is quite probable, as we have not nearly exhausted our ability to obtain revenue through taxation, it is the part of wisdom to increase quickly our revenues. Four billion dollars annually does not begin to measure the possible revenues of the United States.

During the consideration of the recent revenue bill I made some studies which were to have been utilized in a discussion of this question. The burdens resulting from the preparation of the appropriation bills precluded my participation. An examination of the earnings of 140 of the leading industrial concerns over a period of years furnished much material for reflection. The list was prepared carefully so as to include only concerns believed to have been upon a sound financial basis. Their earnings in 1914 aggregated \$250,000,000, in 1916, \$1,250,000,000.

One fact should be emphasized so forcibly at this time that the American people should not be capable of misunderstanding. It should be proclaimed broadly that neither the individual nor any group was entitled to inordinate profits from the necessities of the government, nor would they be permitted.

I speak not as an enemy of wealth nor as one hostile to successful industry or to proper rewards for the exercise of that peculiar genius essential for the conduct of exceptional enterprise. The future of our people, as well as the fate of civilization and the continuance of democratic institutions, hinges upon the outcome of this war. Individual ambitions, interests or prospects must disappear before the greater objective—the welfare of the nation. No system of taxation can be devised that will apply with exact equality to every individual; the necessities of the government cannot be supplied without business disturbances that will work cruel hardships in some directions. No one can predict in what direction he will be asked to make sacrifice or assume an exceptional burden in the onward progress of the nation to its ultimate end. Many will be called upon for the supreme sacrifice of their lives, none will be tolerated whose grievance rests in the contention that their material prosperity has been arrested or affected in the necessary marshaling of the country's energies.

It is not my purpose to attempt to detail the sources which may still be tapped for additional revenues. This is not the occasion for me to do so. The pressing need at this time is to bring home convincingly to the masses that they must be prepared to endure much greater burdens from taxation. The country must be persuaded to change its extravagant and wasteful habits and to cultivate thrift. During such a crisis the people should not expect to spend as lavishly nor to indulge luxurious tastes as freely as in days of peaceful prosperity. The nation must be awakened as never before in its history; the people must be taken fully into the confidence of the government; they must have presented again and again the real picture of world conditions so that every individual shall appreciate and discharge his obligations in full.

Even if there were not other sound and imperative economic reasons, that effective method of reaching the public conscience would justify resort to extraordinary methods of taxation at this time. No system should be tolerated that will paralyze industry or breed discontent; none should be avoided essential to provide the revenues imperatively required and that will distribute the resulting burdens as equitable as experience and knowledge dictate.